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SPECIAL ISSUE ARTICLE

MNE microfoundations and routines for building a legitimate and sustainable position in emerging markets

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Number: ERN:13/09**Summary**

A number of studies have analysed how multinational enterprises (MNEs) develop appropriate strategies for managing the institutionally different contexts of various markets. However, we still know rather little about how MNEs manage different institutional pressures when they operate in emerging markets. These markets have a higher level of uncertainty as their values and structures undergo change. This paper investigates the microfoundations and routines that can be part of developing a firm's capability to achieve a legitimate and environmentally sustainable position in emerging markets. We focus upon the microfoundations and routines for managing regulative, normative, and cultural-cognitive pressures. The paper utilizes an extensive qualitative case study approach. It reports a study at corporate and subsidiary levels of 3 Swedish MNEs in the in 4 markets: Brazil, Russia, India and China. The study identifies a set of routines for managing each of the 3 institutional forces and supporting microfoundations at individual, interactive, and structural levels. We are thus able to offer new insights on how the institutional context interacts with MNE strategies and identify more generic routines and microfoundations behind the capability for developing a sustainable market position.

KEYWORDS

emerging markets, institutional theory, microfoundations, MNEs, routines

1 | INTRODUCTION

The capability to grow and develop a sustainable competitive position in emerging markets is a key strategic factor for multinational enterprises (MNEs; Cavusgil, Ghauri, & Akcal, 2013; Hadjikhani, Elg, & Ghauri, 2012). At the same time, cultural and contextual forces present major challenges (Bartlett & Ghoshal, 2000; Elg, Ghauri, & Tarnovskaya, 2008; Gooderham, Minbaeva, & Pedersen, 2011; Meyer & Peng, 2016; Zaheer, 1995). These localized factors require unique capabilities from MNEs, while they often strive to pursue a global strategy (Morris, Hammond, & Snell, 2014). Given that these considerations are emphasized in the literature, it is remarkable that we still know rather little about how Western MNEs navigate through different institutional environments when they operate in emerging markets. Most of these markets are still developing with a high degree of social, political, and economic change. Consequently, values and

structures in the society are also changing. This makes it more likely that MNEs can proactively influence the institutional environment in these markets than in more developed markets with more stable institutions. However, for Western MNEs, there are significant cultural differences between their home markets and emerging markets. Consequently, the perspective of local employees and other critical stakeholders can generally be expected to diverge more from corporate practices than in the Western markets.

Institutional theory has been used in order to analyse how MNEs can develop appropriate strategies for managing the different contexts of foreign markets (Andersen, Christensen, & Damgaard, 2009; Dacin, Goodstein, & Scott, 2002; Tan & Wang, 2011). It offers an increased understanding of the structures, norms, and values of the local environment and of the pressures that firms have to understand and deal with (Busenitz, Gomez, & Spencer, 2000; Deligonul, Elg, Cavusgil, & Ghauri, 2013; Peng, 2012). Traditionally, a key assumption has been

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that institutions are inclusive structures that shape the behaviour of firms and drive them to adapt in similar ways, eventually leading to isomorphism (DiMaggio & Powell, 1983; Yeniyurt, Townsend, Cavusgil, & Ghauri, 2009). At the same time, it is argued that MNEs have to manage institutional systems that vary between different markets (Kostova, 1999) and that it will not be possible to adapt completely to local variations while applying a global core strategy (Peng, 2012). Earlier studies also suggest that MNEs are often sufficiently powerful and resourceful to be able to influence institutional structures in emerging markets (Child & Tsai, 2005; Elg & Ghauri, 2015).

These considerations also connect to a more general discussion concerning the role of macro structures and forces in relation to micro-level behaviour and foundations. For example, Van De Ven and Lifschitz (2013) argue that although institutions certainly influence what individuals consider to be legitimate and acceptable, firms and individuals are also to a varying degree able to achieve institutional change. Powell and Colyvas (2008) note that institutionalism mainly considers macro-level forces and processes, while disregarding ongoing factors and activities at the micro level. They also discuss microfoundations for institutional theory, but these are on a more general level and not linked to individual firms' behaviour. All in all, there is a shortage of studies that link overall institutional arrangements and processes to firms' strategic behaviour (Djelic, Nooteboom, & Whitley, 2005), and to the role of individuals as well as interactions and structures within the firm.

Sustainability and social responsibility are stressed today as an essential foundation of most businesses, because they can generate competitive advantages (Perrini & Vurro, 2010; Porter & Kramer, 2006) but also because they are considered to be an important support for a firm's legitimacy in different markets (Elg, Ghauri, & Schaumann, 2015; Ellen, Webb, & Mohr, 2006). Furthermore, restrictions regarding how to exploit natural resources may undermine a firm's competitive advantages if not properly considered, whereas capabilities to operate in a way that acknowledges environmental sustainability may generate competitive advantages (Hart, 1995; Hart & Dowell, 2011). This also means that microfoundations for operating in emerging markets, where rules and regulations concerning sustainability issues may be vague or unclear, should incorporate processes and values emphasizing these issues. However, sustainability is a complex issue that involves stakeholders on different levels and with different perceptions (Starik & Kanashiro, 2013). The global aspect adds further complexity due to cultural aspects and local norm systems (Bondy, Moon, & Matten, 2012).

We thus suggest that cross-fertilizing institutional theory with a microfoundations approach may aid our understanding of this complexity. We anticipate that the changing effects of microfoundations on different levels, and their corresponding routines, drive different sustainability-related outcomes at the firm level. Central to these microfoundations, and this overall chain of interactions, is the behaviour of individual employees. Recent studies have advanced our understanding of the relationships between employee "green behaviour," different organizational contexts, and sustainability-related outcomes (Bissing-Olson, Iyer, Fielding, & Zacher, 2013; Carmeli, Brammer, Gomes, & Tarba, 2017). But many of these are conceptual (Strauss, Lepoutre, & Wood, 2017) or focus on single-country studies (Norton, Zacher, Parker, & Ashkanasy, 2017). None examine these interactions

across different country environments, which is our main contribution to this field of enquiry.

This paper adopts a multilevel analysis with the aim of examining how variations in microfoundations influence differences in firms' routines and capabilities and how these in turn influence the ways in which firms cope with variations in their environments. It identifies routines that can be applied in order to manage regulative, normative, and cognitive environmental pressures and explains their microfoundations in terms of the individuals, interactions, and structures behind these routines. Microfoundations refer to the individual capabilities, intraorganizational processes, and routines that sustain dynamic capabilities. They may explain a firm's ability to influence macro structures and to develop routines and capabilities for gaining a sustainable competitive advantage within a certain macro environment (Argote & Ren, 2012; Barney & Felin, 2013; Felin & Foss, 2009; Teece, 2007). This view has, however, scarcely been applied to the challenges faced by MNE managements in local institutional environments and the conditions under which they will be able to develop a long-term competitive position (Park & Harris, 2014). MNEs also face the challenge of gaining legitimacy and recognition as responsible local citizens. This, in turn, means that their interactions and joint value creation with stakeholders other than business partners are essential (Bondy et al., 2012; Reimann, Ehr Gott, Kaufmann, & Carter, 2012).

Firms differ in terms of their capacity to cope with different institutional structures. We contribute by offering an in-depth understanding of how firms can approach institutional forces through a combination of proactive and reactive responses based upon certain routines and microfoundations. Linking individuals to interaction processes and structures offers a broader perspective on microfoundations. Another important aspect discussed in the literature is how far corporate values and practices have an impact on subsidiaries in culturally different markets and how they relate to local values and activities (Kostova & Roth, 2002). We enhance knowledge about this by investigating how corporate and local practices respectively influence the routines and microfoundations developed to manage institutional forces in emerging markets. Our research explores how firms vary in terms of the kinds of routines they are able to deploy, in relation to both the external context experienced by colocated firms and the underlying microfoundations that are unique to each firm.

We will focus on the so-called BRIC (Brazil, Russia, India and China) markets. They have been regarded as the strategically most important emerging markets. As discussed by Hadjikhani et al. (2012), the BRIC markets have a growth rate up to 5 times larger than the average for developed markets—at the same time, they belong to completely different cultures, economic realities, and political systems. By studying these four markets, we are able to offer new insights on how the institutional context interacts with MNE strategies and identify more generic routines and microfoundations behind the capability for developing a sustainable market position that appears to be relevant regardless of the cultural and institutional contexts.

Our main objective is thus to increase the understanding of how individuals and micro processes at a lower level cope with higher level structures and institutions. This will lead to a theoretical approach for

understanding an MNE's capability to build a position in emerging markets based upon the underlying microfoundations and routines. Earlier research has discussed the fruitfulness of a microfoundational approach and what it adds to our understanding of firms (Devinney, 2013; Winter, 2013). It has been argued that this line of research underestimates the role of macro-level factors (Vromen, 2010) but also that microfoundations first and foremost are based upon individuals and their motivation (Foss & Lindenberg, 2013). However, several authors have emphasized that we need a better understanding of how the individual-level factors and units within the firm are related to macro-level mechanisms and that focusing mainly on one level limits our understanding (Greve, 2013). One of the contributions of this paper is thus to link individual micro-level aspects to organizational processes and general structures within the firm.

We investigate these issues through exploratory case studies of three Swedish MNEs in the BRIC markets. Our main source has been interviews with managers at head offices, local managers, and partners. The interviews particularly focused on how managers perceive and manage these markets in terms of threats and opportunities, through different activities. The next section deals with literature relevant for our topic.

2 | THEORETICAL BACKGROUND

MNEs face a unique challenge in that they have to manage a complex global environment with a number of externalities (Doz, 2011) and to combine global strategy and efficiency with local responsiveness. This requires an extension of the dynamic capabilities and microfoundations approach (Morris et al., 2014). Some earlier studies investigated learning within MNEs and joint ventures and how knowledge can be transferred across culturally different markets (Collinson & Narula, 2014; Gooderham et al., 2011; Kilduff, 1992; Park & Harris, 2014). An MNE also needs to develop a unique capability to respond to culturally different markets in rapidly changing legal, cultural, and economic environments (Morris et al., 2014; Roth & Kostova, 2003). This will involve using different routines and micro activities in order to achieve a balance between adapting to macro factors on the market and attempts to change local structures. Meyer and Peng (2016) particularly stress the complex role of different institutions in emerging economies and how they require a set of different arrangements and responses from international firms.

MNEs may gain local legitimacy through interactions with stakeholders that lead to a long-term, sustainable position in emerging economies (Collinson & Wang, 2012; Elg et al., 2015; Kolk & van Tulder, 2010; Reimann et al., 2012). Some studies have especially stressed collaboration aiming at protecting the environment. Gifford and Kestler (2008) describe how an MNE developed legitimacy through interactions with a locally based community to bring about sustainable development in the mining industry in Peru. This also illustrates that initiatives to protect the environment and gain a legitimate position in emerging markets require routines based upon local micro-level activities. An approach that considers individual behaviour and processes and how this influences strategic dynamics is required (Foss, 2011). As argued by Barney and Felin (2013), we need to understand

how individuals and micro processes at a lower level cope with higher level structures and how interactions and individual judgements at a lower level shape macro forces. It includes balancing local flexibility and maintaining corporate strategic goals, based on internal processes as well as network interactions, and benefits from the skills of different external partners (Teece, 2007). We will thus be able to examine interactions between levels of analysis to better understand how variations in microfoundations influence differences in routines and capabilities, in turn influencing the ways firms cope with variations in their context.

Meyer and Rowan (1977) argued that practices and values are as critical as financial and competitive dimensions. Complying with and adapting to the institutional environment provide a firm with legitimacy. Furthermore, the organizational field was developed as a concept that describes groups of organizations belonging to the same environment and shaped by the same institutional forces (DiMaggio & Powell, 1983; Meyer & Scott, 1983). A general assumption would thus be that institutional forces push MNEs towards adaptation whereas their possibilities to change the institutional context are limited (cf. Boddewyn & Doh, 2011; North, 1990; Ranson, Hinings, & Greenwood, 1980). On the other hand, MNEs act in a number of markets that are quite different in terms of their institutional environment. They can therefore not be treated as units that belong to a certain organizational field (Kostova, Roth, & Dacin, 2008). The issue is rather to what extent they will comply with, or adapt to, a set of varying local conditions and institutional pressures (Peng, 2012; Roth & Kostova, 2003; Tan & Wang, 2011). Greenwood and Hinings (1996) discussed the existence of convergence as well as change. They suggest that in the early development of an organizational field, technical performance requirements are more important whereas institutional pressures become more salient in later stages. Furthermore, Child, Lu, and Tsai (2007) show how institutional entrepreneurship by MNEs can be a way of influencing different institutional forces in China.

Emerging markets are in an early stage of business development, and therefore, firms may be more likely to influence institutional factors. Still, several emerging markets, such as China, are based on ancient cultural values and traditions. Consequently, one theme in the international management literature highlights how MNEs use their power base and political position in order to influence and change their institutional environments and change them in favour of corporate interests (Blumentritt & Rehbein, 2008; Child, Tse, & Rodrigues, 2013; Djelic et al., 2005). Kostova et al. (2008) argue that multinationals can achieve local legitimacy and influence institutional conditions through interactions with local prominent actors. Some authors also point to the gap between formal and informal institutions (Mair, Marti, & Ventresca, 2012) and argue that incongruences may cause inconsistencies and conflicts that are particularly challenging for firms active in these markets (Williams & Shahid, 2016; Williams & Vorley, 2015). One way to manage this uncertainty is by strategic alliances with local actors that increase the focal firm's legitimacy and also help the firm to conform to local values as well as influencing them (Dacin, Oliver, & Roy, 2007; Webb, Kistruck, Ireland, & Ketchen, 2010). Boddewyn and Brewer (1994) especially show how firms can use different ways of interacting with political actors, based on different degrees of compliance versus influence. Many studies thus illustrate,

in different ways, how individuals interact on a micro level in order to interpret, construct, and change the institutional macro-level structure (Barney & Felin, 2013; Van De Ven & Lifschitz, 2013).

Furthermore, an MNE is governed by a set of institutionalized norms and rules and a specific organizational culture (Hill, 2006; Kostova & Zaheer, 1999), as well as by the strategies and competitive priorities of the organization (Hirsch & Lounsbury, 1997). As stressed by Boddewyn and Doh (2011), the firm thus has to manage tensions between national institutional structures and corporate ones. It can be critical for MNEs to be able to transfer certain resources and routines to a new market (Kilduff, 1992; Kostova, 1999; Morris et al., 2014). Organizational practices can be defined as “particular ways of conducting organizational functions that have evolved over time under the influence of an organization's history, people, interests, and actions that have become institutionalized in the organization” (Kostova, 1999, p. 309). More generally, the microfoundations need to provide a structure that recognizes corporate culture and norms while allowing for local flexibility that permits freedom for individuals to formulate processes that are acceptable to the management of local institutions (Felin, Foss, Heimeriks, & Madsen, 2012; Teece, 2007).

Increasing attention has also been given to how sustainability relates to organizational strategy and competitive advantage (Aragon-Correa, 2013; Porter & Kramer, 2006). Earlier research stresses that environmental sustainability is a relative factor that depends on the context and the cognitions of individuals. Hart and Dowell (2011) recognize how “cognition and framing play key roles in the development of environmental capabilities” (p. 1469) because “the ability to profit from pollution prevention depends critically on managers' expectations that such opportunities exists” (p. 1468). In other words, the adoption of policies for environmental sustainability by MNEs depends crucially on microfoundations—that is, their managers' appreciation that such policies are not only socially good but will also benefit the firm. Tan and Wang (2011) show how Western firms may modify their institutional logic depending on the different cultures and institutional settings that they act in. Crilly, Hansen, and Zollo (2016) argue that what is seen as questionable sustainability claims may be due to how they are expressed by individual managers and what they regard as socially responsible.

Different stakeholders, having different perceptions and expectations, may also interpret sustainability claims differently. Furthermore, it has been stressed that there is a critical link between how social and environmental responsibility is embedded in the organization and the corporate strategy and how it is perceived and embraced by employees (DuBois & Dubois, 2012; Moss Kanter, 2011). We thus argue that the framework developed here is also a response to the need for sustainability management theories that integrate individuals, organizations, and the societal context (Starik & Kanashiro, 2013). It offers an understanding of how sustainability originates from microfoundations at different levels—including intangible human assets—that support the routines leading to a competitive advantage (cf. Perrini & Vurro, 2010).

Kostova (1999) discussed the transfer of practices between markets for an MNE, based upon the three institutional pillars introduced by Scott (2013) and the suggestion that the social environment of a certain country has a regulative dimension, a normative dimension,

and a cognitive dimension that exert a different influence on the implementation and internalization of practice in a subsidiary (Kostova & Roth, 2002). Several other studies have also been based upon Scott's three dimensions (Andersen et al., 2009; Busenitz et al., 2000; Child et al., 2007), arguing that individuals' views and actions are shaped by dominant ideas resting on these three pillars that, in turn, determine what is considered to be legitimate. These three dimensions can thus explain whether a firm will be able to build a sustainable, long-term position within the institutional environment of a certain market.

The regulative pillar is based on formalized rules and regulations (Scott, 2013) but also depends on how laws and legal contracts are actually enforced. The normative pillar concerns values and norms indicating what is desirable and what is considered to be legitimate behaviour, in accordance with moral standards (Scott, 2013). As a firm enters a foreign market, it may be necessary both to comply with institutionalized norms within the industry and to alter and develop them in accordance with the firm's strategy and business system (Deligonul et al., 2013; Ghauri, Tarnovskaya, & Elg, 2008). The third pillar was originally named cultural-cognitive by Scott (2013) as it emphasizes the taken-for-granted views and understandings and the importance of shared cultural frameworks.

3 | A MICROFOUNDATIONS APPROACH

Recent work developing the microfoundations approach (Felin, Foss, & Ployhart, 2015; Johns, 2006) integrates and extends prior studies, many of which examined micro-level processes and structures to explain the emergence, function, and effects of routines and capabilities (Feldman & Pentland, 2003; Miller, Pentland, & Seungho, 2012) and the general origins of dynamic capabilities (Argote & Ren, 2012; Helfat et al., 2007). Following Felin et al. (2012), microfoundations “may serve as causal explanations for the creation of a routine or capability” or only “influence the development, operation, maintenance, and/or change of a routine or capability.” They propose that a microfoundations perspective is needed to inform work on organizational and competitive heterogeneity.

We adopt and extend their framework encompassing three components of an organization's microfoundations: individuals, processes, and structure. The individual category considers behavioural and psychological aspects as well as different abilities that individuals may possess to a varying degree. The processes and interactions category focuses upon the interplay between individuals and different processes in the organization as well as between the firm and other actors, whereas the structural category involves rules, norms, and systems that may facilitate as well as block different initiatives. This framework has the advantage of comprehensiveness and of acknowledging the interplay between individual and organizational aspects of microfoundations.

Felin et al. (2015) argue that microfoundations research has hitherto focused on the individual and the interactions between two levels: the individual and the organization. They call for more attention to be paid to context: “one pillar of microfoundations is the explicit recognition of contextual factors, though this type of work certainly remains

at its infancy" (Felin et al., 2015, p. 602). This echoes earlier points made by Johns (2006), and we explicitly address this gap in our research, bringing more context to the foreground of microfoundations research.

More recent studies addressing this gap, in the field of sustainability, have focused on how microfoundations vary across organizational contexts (Strauss et al., 2017) and how these relate to employee "green behaviour": the intentions and actions of employees (Norton et al., 2017). Such studies show, for example how employee behaviour is shaped by their awareness and knowledge of the environmental outcomes of particular decisions, actions, or events. In turn, organizations can promote proenvironmental behaviour change by initiating routines that increase employee awareness, with positive net effects at the firm level (Unsworth, Dmitrieva, & Adriasola, 2013). However, many of these studies are conceptual or examine employee behaviours in single firms and/or countries. None have empirically linked behaviour, microfoundations, and sustainability outcomes in different country contexts, which is our major contribution.

We will examine how microfoundations support the routines that in turn lead to a MNEs' capability to manage institutional forces in various emerging market contexts. In particular, our aim is to examine interactions between levels of analysis to better understand how variations in microfoundations influence differences in routines and capabilities, which in turn influence the ways in which (and success with which) firms cope with variations in context. Our study thus covers the link between what Devinney (2013) called the I-level, S-level, and O-level theories, representing individual-level aspects, group interactions within the organization, and the strategic level of the firm as a whole. This three-part framework is further developed as an approach for better understanding "how causality unfolds between and within levels in terms of mechanisms" (Felin et al., 2015, p. 590).

Figure 1 summarizes our theoretical perspective. It outlines a simplified relationship between the levels described above, proposing that the capability of a firm to develop a sustainable, legitimate position is influenced by the routines it employs for managing external pressures. These routines are underpinned by the microfoundations of the firm. Finally, the individuals, processes, interactions, and structures that comprise the microfoundations are influenced by the local institutional context. Although Figure 1 illustrates our theoretical perspective, we would like to stress that the empirical focus will be on the microfoundations and routines developed in order to respond to the institutional pressures on emerging markets. We anticipate an interdependent cycle of codevelopment at all levels as microfoundations, routines, and context become more aligned over time. But persistent misalignment or failure to either adapt to or shape aspects of the institutional context would presumably undermine the legitimacy and perhaps survival of an organization in a new environment. The view on environmental sustainability is central here. A gap between the local institutional context and the internalized values expressed by, for example, codes of conduct should be addressed as a step in creating legitimacy. Here, an MNE may either adapt to local perceptions of what is considered to be legitimate and desirable (Tan & Wang, 2011) or try to influence and change local, institutionalized norms and practices (Child & Tsai, 2005).

We assume that each market will be shaped by a set of regulative, normative, and cultural-cognitive forces. Our focus is on how MNE managers perceive these forces and how they approach the three pillars in emerging markets. The firm is expected to develop a set of both microfoundations and routines and capabilities that provide an effective basis for approaching the local institutional environment. To clarify this relationship, we need to reiterate the widely accepted definition of routines as "repetitive, recognizable patterns of interdependent actions, carried out by multiple actors" (Miller, Pentland, & Seungho,

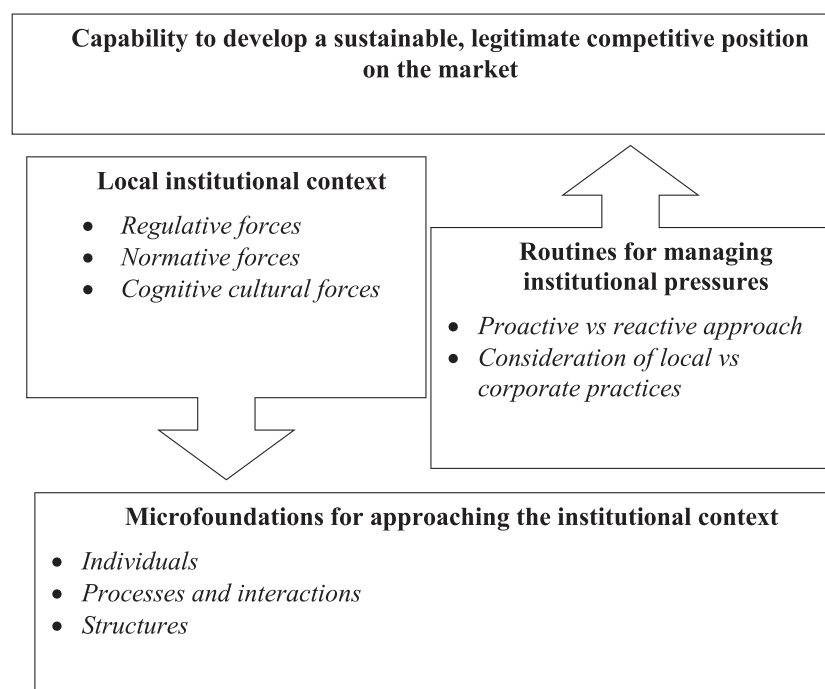


FIGURE 1 Preliminary theoretical approach

2012, p. 95). From earlier foundations (e.g., Nelson & Winter, 1982) has evolved an accepted hierarchical framing of higher and lower orders of routines and capabilities underpinned by combinations of individuals (with specialist knowledge and expertise), processes, and structures. A higher-order routine (or collection of routines) that enhances a firm's dynamic capabilities would tend to involve a "performative aspect" whereby the organization is "putting knowledge or resources into action at a place in time". A basic "operational or zero-order routine" would have both performative and ostensive aspects (Miller, Pentland, & Seungho, 2012). At the microfoundations level, various processes and structures govern the ways in which (and effectiveness with which) individuals combine their specialist knowledge and expertise for problem solving and decision-making.

To understand these relationships, we need to examine various aspects of the microfoundations of the firm, including individuals and their ability to interpret and make sense of local conditions, processes through which different individuals interact and resources are combined, and structures that may facilitate as well as block different activities. The routines may to a varying degree involve adaptations to local conditions and proactive attempts to influence the institutional environment. Furthermore, they may draw upon corporate practices based upon, for example, culture and strategic direction versus local practices such as how an organization is expected to act in particular emerging markets. Through these routines, a firm can achieve a unique capability to develop a legitimate position in the market. For example, the requirement to undertake environmental responsibilities has become an institutionalized part of most Western societies. In a firm, this responsibility is often expressed in codes of conduct—representing routines for how to respect environmental sustainability in external as well as internal activities. An MNE needs to relate these routines to locally institutionalized values in the emerging markets.

To enhance our contribution to the current literature, part of our analysis will explore whether the inflexibility of routines and/or limitations in the microfoundations unique to a particular firm underlie specific weaknesses or capability gaps relative to other firms as it attempts to develop a sustainable, legitimate position. This addresses the important notion of adaptability. Most research that has developed the concept of routines as "habits" or "individual procedural memories for action in specific contexts" has tended to focus on their inertia as a barrier to change over time resulting from locked-in, path-dependent employee behaviour (Cohen, 2012). Here, by contrast, the focus is on capabilities to adapt to different contexts, as large MNEs maintain a simultaneous presence in several overseas markets. Concepts such as the notion of transactive memory can be applied to any change in context, over time or place, to help explain the relationship between individual behaviours and skills and collective capabilities as firms attempt to adapt (Miller, Choi, & Pentland, 2014; Miller, Pentland, & Choi, 2012).

We hypothesize that a firms' ability to adapt, in terms of an ongoing, dynamic alignment to a new institutional context, is influenced by, if not dependent on, its microfoundations. These underpin the degree to which it has the requisite variety of routines and capabilities to cope with new ecosystems. At the same time, it is recognized that there are sources of structural inertia and path dependency in firms, which limit their ability to succeed in novel environments (Sydow, Schreyögg, & Koch, 2009). The degree to which firms experience liabilities of

foreignness in new environments is arguably related to the lack of variety at the microfoundations level and/or the level of routines and capabilities.

Collinson and Wilson (2006) coined the term *latency* to refer to the stock of routines and knowledge, developed historically and available to draw on when needed, in response to new challenges, including pressures to internationalize. A limited stock of routines gives rise to limited organizational responsiveness and high levels of path dependency. This has been applied to explain relative failure to cope with the challenges of internationalization (Collinson & Rugman, 2008) and more recently in relation to coping with institutional complexity (Arregle, Miller, Hitt, & Beamish, 2016).

4 | RESEARCH METHOD

This study investigates how the institutional environment is approached by Swedish MNEs in the four BRIC markets. We study managers' views on interactions with business partners, social and political actors, and other strategic activities undertaken to strengthen the firms' brands and competitive positions. Considering the exploratory nature of our work and the research field, we use a qualitative approach as suggested by several scholars for this type of study (Doz, 2011; Ghauri & Grønhaug, 2010; Yin, 2003). We decided to use a case study approach conducting in-depth interviews with the managers who deal with these challenges to achieve a rich understanding (Eisenhardt & Graebner, 2007). Case studies were considered the most suitable method as we wanted to study several levels of managers and triangulate interview data with secondary material (Ghauri, 2004). The firms were studied at headquarters level as well as through field studies in the four markets including interviews with managers as well as various types of secondary material, such as annual accounts, media reports, and minutes of meetings.

In the selection of the case companies, one main principle was that they should represent different types of industries in order to avoid developing conclusions that were purely industry specific. We also considered it important to choose companies that had clearly developed corporate strategies and norms that they strive to transfer to the different local markets. Otherwise, it would become difficult to investigate the corporate or local dimension. One requirement was therefore that global corporate strategies were clearly stated in documents and linked to guidelines for how to implement them on foreign markets. This included how to interact with partners in the value chain, corporate brand values, market communication, and policies for how to interact with customers and other stakeholders. Another criterion was that we aimed to study firms that were successful in expanding globally and were present in the BRIC markets. Getting the in-depth, extensive access that this study required was, however, a challenge. In one instance, we therefore settled for a firm that was present in three out of the four markets.

The three case companies vary in size. Whereas Tetra Pak has 23,000 employees, Thule and Axis Communication each have a little over 2,000. All three can nevertheless be considered to be market leaders within the business areas where they have been technological pioneers. Axis Communications is the global market leader within the

area of digital surveillance. It has its head office in Lund and offers network video solutions for professional installations. It was founded in 1984 and is today driving the global market for digital video cameras for security purposes. It has been leading the ongoing shift from analogue to digital video surveillance, and it was the first company in the world to launch a network camera in 1996. Axis is present in more than 30 countries and operates through collaborations with partners in about 180 countries. The firm has been very successful, and sales have increased by an average of 26% annually during the last 5 years.

Tetra Pak was founded in 1951 by Ruben Rausing and was originally headquartered in Sweden for more than 50 years. He developed the first aseptic packaging technology that could retain the colour, texture, natural taste, and nutritional value of liquid food for up to 12 months, without the need for preservatives or refrigeration. Today, the company is part of the Tetra Laval Group, headquartered in Switzerland. It operates in more than 170 countries with 39 marketing companies and 79 sales offices. The firm has defined the category of aseptic packaging, and in many countries, Tetra Pak is a synonym for carton food packages.

The Thule Group was founded in 1942 but started to focus on products for sports and utility transportation in the early 1960s. It is the world leader within this field. The firm develops, manufactures, and markets load carriers, accessories, tow bar systems, trailers, and the like. Lately, it has broadened its scope to focus on, for example, bags and laptop cases. It operates in 139 markets and has about 50 production and sales locations worldwide.

The empirical analysis is based primarily upon interviews conducted with managers in BRIC. The sample includes respondents from the three Swedish firms as well as from their business partners in all markets except for India, where Thule is not present. As a first step, interviews were conducted in the headquarters in Sweden. The CEO or a vice president of the companies enabled us to capture the firms' corporate global strategy. We then identified managers responsible for areas that were critical in order to support and implement the strategy. These included supply chain and partner management, marketing and brand management, stakeholder relationships, internal communication or human resource management. Because two companies were relatively small, some of these functions were carried out by the same managers. All in all, 16 interviews gave a deeper understanding of the corporate values and practices that we were aiming to trace in the local markets.

We then conducted interviews with 81 managers in the four markets. They were selected in a similar way. We identified local managers responsible for the above functions and in some cases also managers that were pointed out by local respondents as responsible for a function regarded as particularly critical—such as corporate social responsibility or training of staff. We also undertook interviews with 26 business partners such as customers or strategic alliance partners. We selected local partners that were regarded as particularly significant by local managers. Including business partners was considered especially important in order to get a deeper understanding of processes and routines performed jointly with the structures that guided local activities. The interviews lasted between 45 min and 2.5 hr. Some interviews were kept relatively short as they covered a more limited area, such as local communication, whereas interviews with

respondents having a broader responsibility, such as country managers, tended to be much longer. The study is also based upon substantial secondary data. We strive to include material that expressed corporate practices, guidelines for local managers, and material presenting the companies on the respective markets. This included strategic documents, brand manuals, and other types of corporate material that is distributed to local subsidiaries in order to guide and support their activities. For all of the markets, our strategy was to book a number of interviews with key respondents in advance and then to identify additional respondents on the site until we exhausted the list of relevant informants and reached a point of saturation.

In order not to influence respondents, the interviews were based upon broad questions and topics. We usually started by asking the respondents to describe local market conditions, challenges, and opportunities and how they worked strategically in order to become competitive. This also included discussing internal work within the organizations, how tasks are divided and controlled, and relationships with headquarters. We then asked more specifically about how they collaborate with business partners in the value chain, about the nature of these collaborations, and about current challenges and issues that were especially critical for the collaborations. We also discussed local rules and regulations and how they were managed by the firm and to what extent different network collaborations could be used to support the firm. All interviews were recorded and transcribed by the authors.

One relevant aspect is that Swedish firms usually represent a different culture as compared to, for example, Anglo-Saxon or French firms. The management style tends to be more informal and democratic, encouraging employees to speak their minds and to take initiatives. Many employees mentioned this spontaneously. The company culture may also influence employees' actions, decision-making, and willingness to speak more openly about the matters raised in interviews (Leung, 1989). Furthermore, 76 out of the 81 interviewed respondents were locals, and thus, only five expats were included in our material. This may also affect their views on, for example, the role of local versus corporate practices compared to a sample of respondents consisting mainly of expats. However, as the majority of our respondents belong to the same category, we believe that cultural differences at the individual level, locals versus expatriates, have not played any role in our study (Sekaran, 1983).

NVIVO10 was used for coding and as a support when we analysed the empirical material. This, we argue, makes our qualitative analysis more transparent and systematic (Ghauri & Firth, 2009; Sinkovics, Penz, & Ghauri, 2008). Nevertheless, the coding and categorization of the empirical data are a qualitative task performed by the authors. To avoid bias, we followed the systematic and well-defined coding process discussed below. Our basic idea was to identify quotes where respondents accounted for their opinion or the behaviour of the firms by referring to some of the three institutional pillars. This approach to analysing and coding interviewee accounts has previously been used in institutional analyses (Suddaby & Greenwood, 2005). All interviews were thus first coded in order to identify statements referring to normative, regulative, or cognitive aspects. As a second step, all these quotes were further coded based upon whether accounts expressed a proactive or reactive view and whether managers justified their

opinions based upon corporate or local practices. Some quotes did not express any proactive or reactive intentions when referring to institutional forces and/or did not bring up the corporate or local dimension. They were thus not coded further.

Statements referring to laws and regulations and government interference through support or constraints were coded as regulative. A statement was coded as normative when it discussed norms, rules, and expectations that governed the firm's market relationships, as well as issues related to quality and dependability in different business relationships and what different stakeholders expect from the firm. When respondents stressed aspects related to general perceptions and assumptions in the society, concerning, for example, national identity, values related to a certain brand, knowledge about products or technology, and the views and opinions of certain groups in society, the statement were coded as cognitive. All four markets were analysed together based upon this logic.

In addition, statements were coded as proactive when the respondents expressed an intention to influence an institutional force, whereas statements regarding how to adapt and statements treating institutional factors as a fact were coded as reactive. The local or corporate dimension focused upon how respondents accounted for their different views and for how the firm approached a certain environmental force. When respondents mainly referred to local factors when explaining their perceptions or the actions taken by the company, it was regarded as based on local practices. On the other hand, when someone justified beliefs and actions using corporate rules, brand values, or referring to directives from headquarter management, we considered it to be based on respective MNE corporate practices.

This means that the coding of the three institutional dimensions was based upon previously developed definitions of the regulative, normative, and cognitive dimension. The coding of the reactive or proactive and local or corporate dimensions was also carried out in a deductive way. After this deductive first step, our approach became more inductive as, we focused upon finding underlying patterns in the material that could be referred to individuals' experiences, behaviours, and perceptions, as well as organizational and structural processes of the organization that were explanations for both limitations to and support for the performance of important tasks. This method enabled us to identify (a) a set of routines described and explained by the respondents and (b) the more implicit, underlying microfoundations that the routines were built upon. Even though the routines and the microfoundations are intertwined and cannot be completely separated, we found it useful to describe them in two separate steps in the empirical part and in the theoretical framework.

All in all, 2,300 statements from interviews were coded based on the three institutional pillars and then further coded along the dimensions proactive or reactive and local or corporate. Of the 2,300 statements concerning institutional factors, 1,468 could be coded as either proactive or reactive, whereas 1,978 could be coded as referring to either local or corporate practices. The relative frequencies discovered in the empirical material are not the main focus of our study. At the same time, a common approach for a qualitative analysis is to identify recurrent themes and underlying assumptions that are frequent in

the empirical material (e.g., Miles & Huberman, 1994). The use of NVIVO has helped us to make an analysis on a very extensive material in a systematic way. It also helps us to critically challenge our own preassumptions with regard to the structure and content of the material by providing a systematic analysis based upon clearly defined concepts and categories. As argued by Sinkovics et al. (2008), international business research is characterized by multiple environments and data sets. NVIVO thus helps to make the qualitative approach more transparent and trustworthy.

5 | INSTITUTIONAL PATTERNS

First, it should be noticed that the results concern managers' perceptions, how they refer to different institutional forces, and how they explain their views in their statements. The results do not measure, for example, to what extent each institutional pillar influences organizational performance. However, we argue that the respondents' views as expressed in their accounts are likely to help us to understand their behaviour and explain how MNEs approach the institutional context and build a strategy on these markets. Below, we will start by discussing some general patterns that were found in the aggregated material for all the four markets.

When managers talked about their external environment and different strategic challenges, they mostly referred to normative or cultural-cognitive aspects in the case of market characteristics, different constraints and expectations, and how they interact with customers and business partners. Regulative issues were brought up much less frequently. This may be due to two factors. One is that respondents perceive regulative issues to have less bearing on their competitive positions and strategic activities because they impact similarly on all firms. The other factor is that they have little influence on how rules and regulations are enforced. This interpretation is supported by the fact that regulative institutional aspects are more often commented on in reactive statements and attitudes than proactive ones. When analysing how the actors perceive and deal with the institutional context, we found that a proactive approach was especially stressed when discussing cognitive forces. This is illustrated by Figure 2, which shows the distribution of proactive and reactive statements with regard to the three pillars.

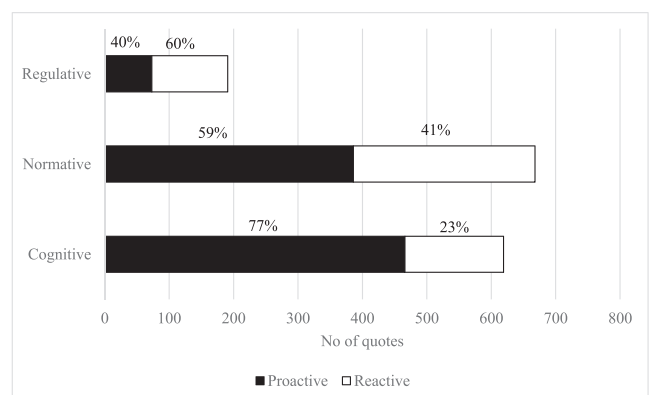


FIGURE 2 Emphasis on proactive versus reactive approach for the three pillars. Distribution of a total number of 1,468 coded accounts

The relative frequencies in the figure also show that a proactive approach was more common than a reactive one when the managers discussed normative aspects. Overall, our study thus suggests that MNE managers will place most emphasis on influencing cultural–cognitive institutional forces in the BRIC markets and that they also believe that they are able to influence normative constraints to a considerable extent, while mainly reacting to regulative forces.

The pattern regarding the role of local versus corporate practices is more homogeneous (Figure 3). Local practices play the main role when managers discuss all the three institutional pillars, meaning that they were more often guided by local considerations rather than directives from corporate practices. For example, the local culture was

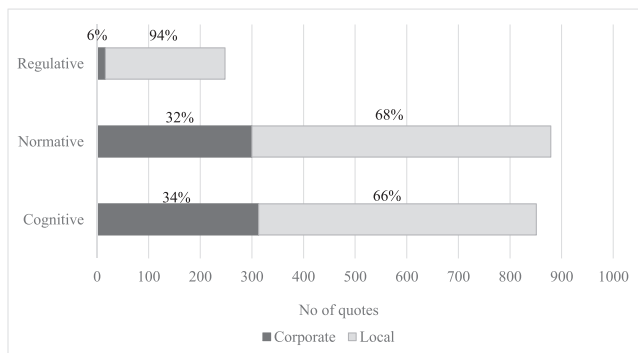


FIGURE 3 Emphasis on local versus corporate practices for the three pillars. Distribution of a total number of 1,978 coded accounts

accounted for much more often than corporate practices or brand values when explaining a certain activity or decision taken by an MNE. It is especially noticeable that when respondents discussed regulative forces, corporate practices such as global strategic priorities were hardly considered. Instead, it became a matter of how to fit into the local environment.

6 | DEVELOPING A CAPABILITY TO BUILD A SUSTAINABLE, LEGITIMATE POSITION

Quotes and accounts by respondents, representing the MNEs as well as local business partners, were analysed in greater depth in order to find patterns that represented decision-making behaviours and routines, and their underlying microfoundations, for managing the institutional forces. Our analysis clarified that the routines identified could be referred mainly to the management of one of the institutional pillars, whereas the microfoundations were of a more general nature and provided support for a number of routines for handling different institutional forces. The framework presented in Figure 4 describes our empirical findings and identifies the routines and microfoundations.

For each dimension, we present routines referred to by respondents from all of the four BRIC markets and that illustrate how they deal with the institutional forces. Themes frequently brought up often concerned both how to approach the market in terms of proactive and reactive responses and arguments based upon either corporate or local practices. Our earlier analyses showed that the emphasis on a

CAPABILITY TO DEVELOP A SUSTAINABLE, LEGITIMATE COMPETITIVE POSITION ON EMERGING MARKETS		
Routines for managing regulative pressures	Routines for integrating with local norms	Routines for becoming a recognized social citizen
Adapt to community based and locally supported rules.	Drive change of local norms and structures in value chain	Transfer knowledge and educate local actors
Control uncertainty of government's business involvement	Recognize locally anchored norms for doing business	Approach culturally rooted values and views upon foreignness
Drive regulative change through local networking	Integrate corporate strategic values and local expectations	Build legitimacy through involvement in social community activities
Supporting micro foundations		
Individuals: Commitment to the corporation's mission, core strategy and codes of conduct Deeply rooted understanding of local rules, norms and traditions Experience of local business culture Interactive abilities of corporate managers		
Processes and interactions: Recruitment and internal motivational programmes for employees Education of critical stakeholders Joint value production and problem solving with local actors Social programmes and activities supporting sustainability values		
Structures: Local employees' personal networks Flexible local decision making structures Open communication channels between local and corporate managers		

FIGURE 4 Microfoundations and routines supporting a multinational enterprise's position [Colour figure can be viewed at wileyonlinelibrary.com]

proactive approach was significant when discussing cognitive forces, whereas respondents found it more difficult to have a proactive approach to normative forces, and regulative forces were mainly approached reactively. In other words, respondents appear to believe that they are especially likely to be successful in influencing and changing cognitive institutional structures and much less likely to change regulative structures, such as laws and regulations or how government actors enforce regulative matters in the society. The respondents' accounts also imply that although guided by local cultural-cognitive norms, they also strive to find a basis for integrating corporate and local cultural values and practices. These aspects are also reflected in the different routines discussed below. A set of quotations is presented in Appendix S1 in order to provide further illustration of our findings. The quotations are numbered, and these numbers are given in parenthesis when they illustrate an item discussed in the text.

6.1 | Regulative institutional forces

Although our study suggests that regulative forces are influenced by MNEs to a lesser extent, it was still apparent that formal regulations as well as government relationships were a critical factor. Government involvement influenced the actions and bargaining positions of business partners, directly or indirectly, and was argued to limit flexibility in doing business and making agreements (1.4).¹ One local matter also often stressed was the complexity of laws, regulations, and taxes, and the different levels of legal structures—from national laws to local regulations. This required resources to be devoted to routines for managing bureaucratic matters instead of business (1.7). This was repeatedly stressed by both MNE respondents and partners. Rules and regulations could sometimes also be interpreted rather arbitrarily by local decision-makers. In China, for example, the opportunities for local political actors to add different restrictions were considered a main issue. Furthermore, local requirements also sometimes meant that the MNEs had to make exceptions to corporate strategic policies, for example, that research and development should be a centralized function (1.9).

Managers frequently expressed uncertainty regarding the nature of political involvement and the concern that political actors might favour and support certain businesses and decide to what extent formal rules and regulations were followed. Many respondents claimed that local business was also favoured through subsidies or by how rules and regulations were actually enforced. Routines for coping with rather detailed, and changing, government regulations were regarded as problematic, but necessary, in all the markets studied. To a large extent, routines for managing such local rules and unstable conditions required knowledge possessed by different business partners (1.5). Another example is how the government deals with applications and permissions for doing different market-related activities. Making events and local arrangements was regarded as difficult, complex, and causing unreasonable costs (1.6). Managers often also stressed that this could be very difficult if you do not have the proper government relationships or if the firm is not at least partly run by someone who is close to the government (1.10). However, managers also described how the MNEs had sometimes managed to build relationships with political actors on the BRIC

markets and influence policies. One example was that an MNE's corporate office managed to build links between the Chinese and Swedish governments in an area regarded as politically valuable, namely, technical training and development in China (1.8).

When discussing proactive responses, respondents would also usually stress that the firms did nothing on their own. A local partner discussed how dealing with regulations required a strength that can only be acquired through collaboration between influential MNEs (1.1). Furthermore, it was often considered important to involve local partners that have a stronger local network and a higher degree of legitimacy (1.2). Respondents argued that it is difficult for an MNE to have enough credibility and institutional support required to act alone (1.3). At the same time, sustainability and social responsibility aspects have come up more recently in these markets. The MNEs that we studied had developed routines for these issues at an early stage, which now gave them a considerable competitive advantage, enabling them to influence regulative changes (1.11).

6.2 | Normative institutional forces

Overall, the routines for managing normative forces are in different ways related to the task of integrating corporate norms and practices with local business norms and what is expected in the local community. For example, normative aspects were brought up when discussing what can and should be expected from business partners and different types of market relationships. In order to safeguard and implement the MNEs' corporate strategies, respondents described routines for how to control the behaviour of local value chain actors (2.6). MNEs acted proactively in this respect to shape their local distribution networks, to fit in with their strategic approach, and to develop shared norms and routines with their local partners (2.2). Quite often, the MNEs could not rely on existing normative structures. Instead, they had to implement routines for identifying the relevant business partners, establishing relationships to them, and driving their behaviour in a direction that corresponded with the desired norms and routines for executing different tasks in the channel (2.3). This could often be done through offering different incentives, but managers also stressed that driving change sometimes required close monitoring and putting pressure on local actors (2.1).

Managers also stressed that they had to balance the proactive approach with respect for existing, institutionalized views on how to do business. The norms may be based upon, for example, a long- or short-term perspective on business relationships, the need to develop personal ties, keeping time margins and quality standards, practices concerning honesty, and to what degree it is acceptable to behave opportunistically (2.9). Here, it is clear that local managers feel a need to develop routines that recognize local practices even if they are not in line with the general corporate strategy regarding how to do business in different markets. This was a matter frequently brought up by managers as well as partners and concerned how to do marketing (2.5), as well as how to make strategic priorities in a way that differed from corporate routines developed for western markets (2.10).

This view also relates to the importance of developing routines that consider both corporate core strategy and the need to be flexible to local demands and expectations. Frustration regarding the lack of flexibility when it comes to pricing and offering adapted products is

¹Bracketed numbers refer to illustrative quotations in the Appendix S1.

one example where the firms' overall strategic approach clashed with local norms expressed by business partners regarding what is desirable (2.11). Another example has to do with the policies for product development (2.7). Both these examples highlight that lacking routines for interactions and communication between head office and the local market can be a challenge in these markets. This can also concern the local flexibility to use new media for developing effective consumer communication (2.8). Finding a bridge between corporate strategy and local beliefs regarding how business should be done still appears to be a major challenge. It can be an especially critical barrier for the corporate managers, as the important role of local values and conditions were stressed very much by almost all respondents regardless of market and firm.

6.3 | Cultural-cognitive institutional forces

Although routines developed for approaching the normative forces focus mainly on building stronger relationships within the business network and getting legitimacy in the market, routines related to cognitive forces often had a broader scope and aimed to contribute to becoming a legitimate member of the local society.

All the studied MNEs focused on innovative products and solutions. However, local acceptance and understanding of the offered advantages may require routines for influencing the perceptions of critical stakeholders. Here, the educational level in the society and the general knowledge about a certain phenomenon can be especially considered (Busenitz et al., 2000; Parboteeah, Hoegl, & Cullen, 2008). One central aspect was to influence basic values concerning product attributes and whether it was justified to pay extra for quality, even though this may not normally be a priority for customers (3.4). Another aspect was that external actors may not necessarily understand the technological advantages included in the MNE's market offering or believe in them. Thus, local knowledge development was also critical. This concerned how to educate partners in the value chain in order to facilitate their contribution to the final market value offered by the MNE (3.10), as well as convincing local actors that the claims made by the MNE were credible (3.2).

A constantly recurrent theme was the importance of proactively educating the market. For example, respondents stressed the importance of routines for convincing different stakeholders through arranging workshops for partners (Axis Communication), educating farmers and government officials about health aspects (Tetra Pak), and developing incentives and support for retailers (Thule). This challenge may be much more emphasized in emerging markets than when an MNE positions brands and products in Western markets. Furthermore, this routine has to do not only with transferring knowledge but also with creating personal bonds that strengthen credibility. Therefore, another critical part was hiring the right local employees, with the proper understanding of local networks and the cultural values that the firm has to approach and an ability to identify the influential external actors (3.3).

This aspect also overlaps another routine found essential for managing cultural-cognitive forces, namely, to integrate culturally rooted values and views upon foreignness. Respondents in all countries emphasized the presence of a strong cultural inheritance (3.9).

Managers frequently also argued that Western MNEs may not adapt enough to local culture regarding how to do business and that this can create problems. The empirical material highlights the importance of routines that position the MNE in a legitimate way with regard to local beliefs regarding the role and importance of local business as well as the advantages and threats represented by foreign MNEs. This was discussed by a large number of respondents. Arguments revealed scepticism towards Western MNEs and their lack of respect for local values and traditions. It concerned, for example, the weight put on developing relationships and the importance of a long-term perspective (3.12). Managing the cultural-cognitive pillar also involves routines for creating a link between the product and brand value offered by the MNE and the locally rooted culture. Respondents discussed how different types of rationales and beliefs will sway customers. They may be more or less obvious, but firms have to relate to them when deciding how to communicate and build a position. These beliefs that influence buying decisions are often based upon established local cultural values (3.5).

Respondents sometimes brought up general beliefs about foreign products and country-of-origin effects. Here, Sweden was described as standing for high quality and honesty. For example, managers often liked to stress the firms' Swedish origins in discussions with partners, customers, and even the government. They also stressed Swedish values concerning hiring locally and interacting with the local community (3.7). At the same time, it can be noted that Brazilian respondents often argued that America was regarded as having the image as the most desirable country to resemble and to refer to. It was, for example, a major strength if a firm could show that its products were established in the American market, supported by American retailers, and the like. In China, on the other hand, a number of respondents argued that it was an advantage if their products could somehow be associated with New Zealand because that country carried connotations of healthiness and high quality. All in all, this means that firms could sometimes proactively use country-of-origin effects to drive market change but that they simultaneously have to show great respect for local cultural values. Here, recruiting employees who can combine their own cultural roots with the strategy and culture of the MNE was also stressed (3.8).

One critical routine for gaining social citizenship was to take part in social projects in collaboration with highly legitimate local actors that benefited the local sustainability and quality of life. This may have to do with processes where nongovernmental organizations (NGOs) supported the firms' activities and thereby demonstrated that they were environmentally responsible (3.1). Another example is when Tetra Pak combined environmental aspects with supporting social needs in collaboration with highly legitimate local stakeholders. One instance was how the firm collaborated with local governments in providing milk for school feeding programmes. Another instance is their education of local waste pickers (3.11). However, stressing environmental sustainability too strongly may not be in line with consumer priorities (3.6).

6.4 | Supporting microfoundations

In line with Felin et al. (2012), we identified microfoundations at three different levels. We find these foundations to be general in the sense

that they support all three sets of routines, whether they are focusing on regulative, normative, or cognitive forces. Furthermore, there is interplay between individuals, processes, and structures.

One critical foundation regarding individuals was that employees must have the potential to fit in and be willing to understand what the MNE sets out to achieve in the local market—involving corporate strategic goals as well as codes of conduct. This has to do with personal characteristics such as the degree of openness and willingness to learn new things, but it might also be influenced by the educational level of local employees. Still, this feature has to be balanced by an understanding of the local culture and the ability to acknowledge local norms and values. It might be that it is more feasible to learn and understand corporate strategy and culture abstractly than internalize the local culture and habits as well as the values that influence political decision-making and actions in these markets.

Deep understanding and experience of the local business culture played an essential role. This includes strategies for negotiation and an understanding of what is acceptable behaviour and expected roles within business relationships. It also includes the ability to translate the MNE's strategic values and codes of conduct regarding environmental and social responsibility aspects. This capability is especially critical when considering that all three firms had an interest in driving the local markets and in convincing business partners that they need to change their behaviour and business routines. Another aspect is the characteristics of corporate managers. Our research reveals that they often misunderstand local priorities and have limited ability and time to interact with local managers in these markets. For example, in China, Thule's packaging and their standardized marketing material was questioned because it was not in line with Chinese expectations. This created frustration among local actors and may reduce the commitment of both local employees and business partners. Furthermore, the interactive abilities of corporate managers can play an essential role in helping employees to understand and identify with corporate strategic values and to appreciate the need for a globally consistent strategy with only limited local adaptations.

Certain processes and interactions also appeared to play critical, supportive roles in relation to the routines, but they also link together individual skills and properties. First, an effective recruitment process will ensure that employees who possess the personal properties mentioned are hired. This process was, in one case, based on a survey instrument that operationalized the central corporate mission and set of values so that it became possible to assess whether potential employees' personal characteristics were suitable. The recruitment process also needs to ensure that potential managers with strong local connections are identified, approached, and hired (cf. 3.8). Furthermore, the importance of building up local employees' motivation and identity was mentioned as a critical point several times when discussing the routines. The firms strived to offer programmes for training and educating important stakeholders in Sweden and externally. For example, Axis had a yearly recurrent schedule for visiting main cities and offering seminars that covered the general technical development as well as the advantages and new features of the MNE's products. Thule would offer training and information to shopkeepers on a regular basis that explained the firm's business strategy, explained the unique properties of the products, and helped them to set up a

store environment that displayed the firm's product effectively to consumers. For markets with a less structured retail industry, this type of activity is likely to be particularly critical.

In addition to educational programmes, there were processes involving local actors in joint value creation. This means that they become a part of the firm's business development, and it also increases their trust and commitment in relationships with the firm. Such interactions also helped to bridge cultural differences and to provide a mutual understanding. The latter was an essential factor when the firms fine-tuned and implemented corporate strategies locally. As stressed above, cultural gaps can be problematic especially in relation to Western MNEs. Local involvement in business processes can be a way of increasing partner commitment as well as the MNE's legitimacy. The firms were also involved in social processes and programmes involving nonbusiness stakeholders. This contributed to the management of cognitive forces and legitimacy in the social arena. It also helped the firms to gain support for developing the value chain. For example, Tetra Pak depended on more developed distribution chains and better communications in order to reach remote parts of these large markets. This would, in turn, require support and understanding from political actors. The firm's social legitimacy can be regarded as playing an important role in gaining such support. One example partly discussed earlier is the involvement in local school feeding programmes together with local governments and NGOs.

Finally, we found certain structural foundations that are linked to the individual and process levels and that can influence the effectiveness of the routines discussed earlier. First, the networks of local employees appear to be a critical foundation. It is through these network contacts that they are able to reach and interact with business partners and also to influence nonbusiness actors such as government officials. Their personal networks may also vary in strength depending on the level of trust that employees have and their centrality within information flows. For example, it was often essential to get information about new government plans and incentives at an early stage in order to make the right strategic decisions in the local market. The higher level of uncertainty in emerging markets makes personal, informal networks particularly critical.

Another structural aspect concerns communication channels between local and corporate managers. We found that this is often an area of weakness. Managers in all markets expressed frustration with regard to the lack of communication and understanding from head office. Even though corporate managers visited the markets regularly, many respondents stressed that they did not feel that their local market externalities were considered when corporate strategies were developed. This factor is closely related to the flexibility of local decision-making structures. One critical issue here is to what extent it is reasonable to adapt centrally formulated codes of conduct to locally institutionalized norms. In many cases, managers as well as business partners argued that local degrees of freedom for adapting prices, developing effective market communications and alternative versions of products were very limited by corporate policies. However, flexibility on the local level also has to do with how centralized the local organization is and to what degree employees such as technical managers or sales managers are allowed to make their own decisions in a particular market.

7 | DISCUSSION

Although this is an exploratory investigation based upon in-depth studies of MNEs, it is comprehensive and includes four markets and 11 case studies. It thus provides a strong basis for theory development. First, our research suggests that firms may not need to have completely different strategies for dealing with the institutional context in different BRIC markets. The actions they take, as well as the results of those actions, are relatively similar; this is a rather unique finding.

This is not to say that such firms do not adapt in response to contextual differences. Our evidence suggests that fairly standard microfoundations can be applied in different settings but drive different priorities in decision-making behaviour. For example, routines for sensing local differences in the priorities placed on various types forms of environmental impact (often led by interaction with local collaborators) do not vary much across subsidiaries. But these drive different internal priorities and employee behaviours to help align corporate policy with country contexts and support legitimacy. This partly supports the conceptual framework put forward by Strauss et al. (2017) but provides empirical evidence for the real-world link between the green behaviours of individual employees, related microfoundations, and the environmental sustainability impacts of the overall firm.

In general, our research suggests that local practices have a strong influence upon managers in MNE subsidiaries in the BRIC markets and that routines applied in the local market tend to overshadow corporate practices. At the same time, there was a strong orientation towards having a proactive approach when dealing with normative and cultural-cognitive forces. The firms tended to have a slightly less proactive approach when dealing with normative pressures. However, in all markets, the firms stressed the need to have routines that change the behaviour of partners in the value chain and introduce new ways to cooperate.

A further general theme was the balance between achieving change and maintaining local legitimacy. This may also explain why the approach to regulative pressures is more reactive among the firms. A main challenge is to understand and recognize those institutional structures that are deeply rooted in the local community and to avoid challenging them in a way that undermines the firm's legitimacy. It may be considered to be especially risky to question legal structures and the enforcement of laws and regulations by government officials, because this impinged on sovereignty. At the same time, it may be possible to approach especially problematic ones if the firm is able to mobilize locals with a stronger network and a higher degree of legitimacy. The idea of achieving legitimacy by being linked to highly respected local actors is also supported by Child and Tsai (2005). They

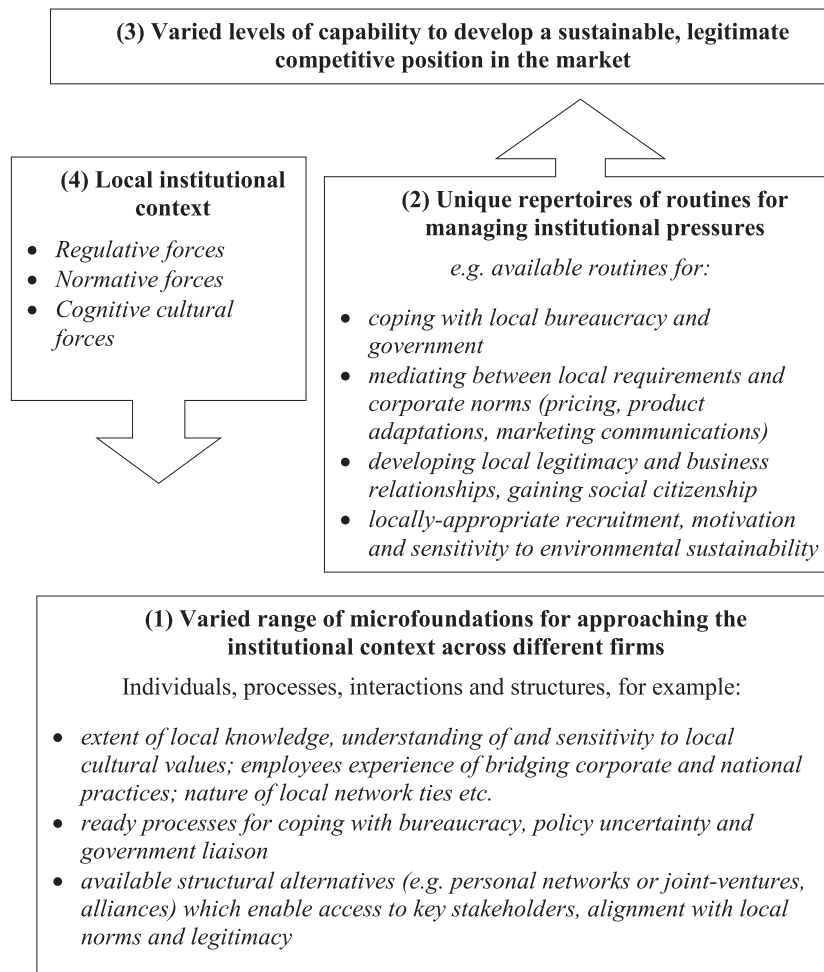


FIGURE 5 Extended theoretical approach

show how MNEs can increase their legitimacy and local influence through collaborating with NGOs and other organizations that have credibility and respect and through local implementation of sustainability programmes.

The study shows how institutional theory can be related to the development of a sustainable, competitive position in these culturally different markets. It also reveals a set of microfoundations that provide a support for meeting challenges in culturally different emerging markets. Earlier studies offer much insight into different country-specific matters and how they relate to legal, normative, and cultural forces (e.g., Hadjikhani et al., 2012). Our approach thus offers a unique opportunity to make a comprehensive analysis of the BRIC markets, and it illustrates how firms, based upon a set of more general microfoundations, can approach a broad number of stakeholders to achieve legitimacy. It may be recalled that 76 out of the 81 in-country respondents were locals. It is thus reasonable to assume that a local office dominated by expats would have a different attitude with regards to the role of local versus corporate practices. On the other hand, these firms have been successful in driving new foreign markets and becoming locally integrated. We believe that the strong local focus is one explanation behind their success. Our research shows how MNEs can become embedded in different social and organizational structures in emerging markets (cf. Collinson & Wang, 2012; Greenwood & Hinings, 1996) and that this embeddedness can explain the strategies and activities performed by foreign firms.

As stressed by earlier studies (e.g., Kilduff, 1992), a major challenge is to transfer routines from one market to another. The degree of challenge may depend on the cultural and institutional sensitivity of the area of activity. For example, sales routines and human resource practices appeared to be especially sensitive to the country environment. However, we argue that the identified microfoundations are of a more general nature and will provide the support for different types of institutional routines. To a large extent, they also relate to existing research within this area. Earlier studies have put a major emphasis on understanding individuals as the fundamental level and to recognize their heterogeneity as an explanation of implementation and success of corporate strategy (Felin & Foss, 2009; Foss, 2011). This research has stressed a number of individual properties that can explain to what extent an MNE will be successful in implementing the routines for addressing institutional forces and creating a strong and sustainable position, and that prior experiences, educational level, and knowledge of the recruited managers are of central importance (cf. Park & Harris, 2014). In line with the literature, we have found aspects such as individuals' psychological processes and local managers' motivations and views on how they are related to organizational actions to be critical, as well as local individuals' and corporate managers' relational ability to interact with other individuals within and outside the organization (Felin et al., 2012). The importance of developing recruitment processes that attract and employ suitable employees also supports the importance of human resource capabilities stressed by Mäkelä, Sumelius, Höglund, and Ahlvik (2012) and DuBois and Dubois (2012) and as a microfoundation in support of sustainability issues.

Processes for interacting with external stakeholders were also identified as a critical microfoundation. One central part was

collaborating with legitimate local actors to support environmental and social responsibility. The MNEs studied here all based their operations on new, creative solutions that were continuously developed further. This further emphasizes the role of joint value production with local actors in the network as stressed by Teece (2007) as a critical microfoundation. Locally anchored partners can be expected to have a superior understanding of the institutional structure and the cognitive basis for needs and wants on the particular market. They will also be able to support the legitimacy of the firms market offering within the local institutional context (Elg et al., 2008).

On the structural level, it seems a balance between local autonomy and the need for a global strategy is crucial. As discussed by Teece (2007), the constantly changing environment and the need for decentralization as firms expand require flexibility and responsiveness. For an MNE, there is a need to balance between a consistent global strategy and brand image and the need to be locally flexible and to recognize local institutional forces in order to become legitimate and develop a sustainable position as a social citizen. The structural microfoundations that support such a capability may be especially difficult to develop for MNEs, due to the drive for corporate control of local activities.

8 | CONCLUSIONS

In general, traditional neoinstitutional theory stresses adaptations and the limited possibilities for individuals to influence structures, although an increasing understanding of the microfoundations underlying routines may provide an insight into how such change can be achieved (cf. Van De Ven & Lifschitz, 2013). However, such microfoundations are not only about individuals but also about the interactions between individuals, institutions, and structures and the understanding of the procedures that make it possible for people to achieve institutional change (Barney & Felin, 2013). The locally embedded networks provide a critical microfoundation that helps an MNE to gain legitimacy within the local community.

These embedded networks provide a critical microfoundation that helps an MNE to gain legitimacy within the local community. Our study also shows how this network can promote a further acceptance for sustainable development, in line with the findings of Gifford and Kestler (2008). Through networking with different stakeholders, an MNE can influence the institutional environment in several ways. The collaboration with government actors as well as NGOs in performing activities that have a social and environmental value will generate legitimacy as well as power to the focal firm (cf. Boddewyn & Doh, 2011; Child & Tsai, 2005; Kostova et al., 2008). The process will also provide increased legitimacy for local political actors and thus increase their incentives to be continuously involved in the social activities and to drive MNEs towards considering local social issues (Reimann et al., 2012). The microfoundations of MNE policy in emerging markets may therefore not only help the firms to gain legitimacy in those markets but also serve to create greater local awareness of social and environmental sustainability.

This also means that the firm will rest upon microfoundations and routines that are in line with the natural-resource-based view as

originally presented by Hart (1995) and Hart and Dowell (2011). For example, if employees as well as basic processes emphasize codes of conducts in favour of environmental sustainability, this will also become integrated in routines for integrating with local norms and becoming a recognized social citizen.

Overall, this paper enhances our understanding about the microfoundations behind routines and capabilities that make it possible for a firm to influence the institutional environment (Barney & Felin, 2013). Stepping back from the detail, we can reflect on Figure 1 and make some observations about how this study informs our understanding about the relationship between employee behaviour, microfoundations, and routines for managing institutional pressures and a firm's capability to develop a sustainable, legitimate competitive position. Figure 5 provides a theoretically further developed version of Figure 1, and it presents a number of new insights concerning MNEs' capability to build a sustainable position in emerging markets. It extends our framework to suggest that the varied range of microfoundations for approaching the institutional context across different firms gives rise to unique, firm-specific repertoires of routines for managing institutional pressures. These in turn influence a firm's capability to develop a sustainable, legitimate competitive position in the market. Figure 5 may thus be considered as an important contribution of this study.

A number of patterns appear to be consistent across all of the case studies. First, there are some key dependencies between the effectiveness of specific routines (2 in Figure 5) and the underlying microfoundations (1 in Figure 5). A lack of local knowledge, experience, cultural sensitivity, or local networks among individual employees reduced the effectiveness of routines for creating positive relationships with customers, suppliers, and government agencies and for developing environmental sustainability on the local market. Second, there are some key areas of tension between following corporate norms and adapting to local requirements, preferences, or ways of working, where these dependencies appear to be particularly important. Decisions around pricing, product adaptation, and the use of different media and marketing communications to suit local consumers were consistently highlighted. Furthermore, norms and views upon sustainability differ between markets, and it may be difficult for an MNE to formulate globally relevant codes of conduct without adapting them to local norms and cultural values. Third, variety underpins adaptability. A narrower range of knowledge, processes, or structural options at the microfoundations level limits the capacity of firms to adapt routines to cope with different local environments.

From a managerial point of view, the routines presented in Figure 5 should be regarded as strategically important to implement in order to build a strong position in emerging markets. However, our study shows that understanding and managing the identified underlying microfoundations is an essential starting point. The microfoundations thus go far beyond business aspects, and managers need to consider social dimensions as well as local employees' personal characteristics and networks. Consequently, it is imperative to consider how corporate policies and global strategies can be translated so that they will still allow for local initiatives and benefiting from local networks and activities.

We conclude that a generic set of microfoundations that enhance the firm's ability to sense and adapt to local differences, balancing this responsiveness with the corporate norms that apply across all markets, underpins a variety of routines that in turn help cope with the challenges of coping with different institutional contexts. Further research is needed to understand how these are developed, applied, and sustained and how much they influence actual firm performance.

Finally, we should consider some specificities and limitations of our research. First, each of the three firms studied based their business strategy upon innovative technologies developed in-house and offering new values to the market. This means that a more proactive strategy is required compared to, for example, firms in fast-moving consumer goods markets that work with well-known established industries and are not based upon technological innovations.

Second, it is possible that Swedish firms have a distinctive culture and a different global approach, allowing for a stronger local orientation among managers. Sweden is a small country, with a strong international orientation, and corporate managers are used to the idea that Swedish culture and language are usually unknown in other markets. Managers from, for example, American, British, or French firms may take a different view. Furthermore, the study required a very extensive empirical access that affected the choice of firms.

Third, there is the question of whether the patterns can be observed only in the emerging markets studied here or if a study of other markets would lead to similar results. We argue that it is likely that a more proactive approach will be more effective in emerging markets that are in a state of change and a considerable growth and that they may require a stronger consideration of local practices due to cultural differences. On the other hand, emerging markets are different and further research may show whether our conclusions hold in markets that do not experience the growth and development that the BRIC markets do. Consequently, differences between various types of markets and characteristics of MNEs are a direction that deserves a substantial amount of further research.

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SUPPORTING INFORMATION

Additional Supporting Information may be found online in the supporting information tab for this article.

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